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PAYING WAGES TO FARM FAMILY MEMBERS

G. Mawhiney, B. Rawn

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Paying wages to family members involved in an agricultural business is an excellent way to recognizing their efforts, instilling a sense of participation and formalizing their role within the family business. Farm families may also be able to boost their after-tax family income by paying farm business wages or salaries to family members. The employment relationship of the individual receiving the wage must be genuine. The person must enter into a valid employment contract and must contribute to the business. Assuming this is the case and the employment relationship can be documented, paying wages to family members with a lower marginal tax rate than that of the business owner can result in overall tax saving to the family.

While this Factsheet provides an overview of the steps and requirements involved, it does not cover all individual business and family situations. Be sure to consult your accountant or taxation professional in order to assess the best possible course of action from a taxation standpoint for your own individual situation.

Potential tax savings is a bonus. The biggest payoff is the recognition and rewarding of the important role played by all members of the family involved in the business.

ADVANTAGES OF PAYING WAGES TO FAMILY MEMBERS

- Paying wages to children or spouses for documented work on the farm is a tax deductible expense to the farm business. Splitting the total business income among family members may reduce the family's total income tax bill.

- Canada Pension Plan (CPP) premiums are paid by all individuals who are 18 years of age or older and who are not already collecting CPP benefits, provided their total annual earnings exceeds $3,500. Individuals then become eligible for the retirement and disability benefits provided by the Canada Pension Plan.

- The family's interest in the farming operation may increase because of the monetary recognition of their efforts. Children can establish savings to assist with financing their education, buy a home, or to acquire an ownership share of the business.

- Regular payments of wages to family members can replace ad hoc year-end tax reduction strategies such as pre-purchasing inputs or machinery.

- A spouse, child or individual under 69 years of age with earned income from wages or salaries can open a registered retirement savings plan (RRSP) and contribute to the plan. There is no minimum age limit on RRSPs. If the plan is started early in a child's life, funds from tax-sheltered growth in the plan can help provide for their education or establishment in business, or may be allowed to grow until retirement.

- A spouse, while employed in the farm business, who hires someone to look after children under 14 years of age, can deduct child care expenses. Related persons can be hired as child-care givers, provided the caregiver is over 18 years of age.

DISADVANTAGES

- The amount of paperwork and record keeping will increase.

- There are added payroll expenses for the employer, such as federal Canada Pension Plan and Employment Insurance premiums as well as provincial Workplace Safety and Insurance Board and Employer Health Tax premiums.

- Paying wages to family members may affect their eligibility for individual tax credits such as the Child Tax Credit.

- Funds paid out in the form of salaries and bonuses will no longer be available for use in the business unless the funds are borrowed back from the wage earner.

FIRST TIME EMPLOYERS

Hiring people for your farm operation, whether family members or not, requires accurate records to track hours of work and calculate and payroll deductions. First time employers must apply to the Source Deductions Section of the Canada Revenue Agency (CRA) District Taxation office to obtain an employer's number under which all records will be kept and payments made. An employer's kit, which includes tax tables, Canada Pension Plan and Employment Insurance tables, and personal tax credit return (TD-1E) forms, is available from the District Taxation office. Make inquiries by telephone or obtain an employer's number and kit from your local (CRA) District Taxation office.

All first time employers should register with the Workplace Safety and Insurance Board. If you plan on having employees it is mandatory that you register your business. (See appendix for contact information)

PAPERWORK REQUIRED

To start:

- Obtain an employer registration number from Canada Revenue Agency. This is the employer's account number for submitting payroll deductions.

- Enter into a contract of service to hire the individual as an employee. Specify the work to be done, rate of remuneration, working hours, conditions of employment, benefits and so on.

- Apply for a social insurance number for any employee who does not have one.

- Complete a Personal Tax Credit Return for each employee, form TD1 (E). This form tells the employer the appropriate level of tax credits for each employee. As an employer, you retain this form on file to ensure the appropriate tax is withheld from the employee's pay cheque. Income taxes are to be withheld based on gross income (as per code on TD1 (E) form.

- Register your business with the Workplace Safety and Insurance Board.

- Some farm managers have traditionally paid workers as though they were contract labourers. That is, no payroll records are kept and no deductions are made and submitted to Canada Revenue Agency on their behalf. In many cases these workers are truly employees, and not contractors, by virtue of the employer/employee relationship. Not treating these individuals as employees is unfair and improper. The Canada Revenue Agency has a publication explaining how to determine if a person is an employee or self employed. If in doubt about the status of an employee, a ruling can be obtained from the Source Deductions section, CPP/EI unit of your Canada Revenue Agency District Taxation Office. If you as an employer or employee disagree with the ruling, it can be appealed by completing Canada Revenue Agency's form CPT100 Application for Determination of a question or appeal under the Canada Pension Plan or Employment Insurance Act. See question 7 for additional information.

- All farms that have paid workers as of June 30, 2006 now come under the Occupational Health and Safety Act for Agriculture. There are certain requirements under this Act that will affect your operation. Detailed information can be obtained from the Ministry of Labour and the Farm Safety Association (contact information is provided at the end of this Factsheet).

Each month:

- Keep a monthly payroll ledger with detailed information on date of pay period, hours of work, gross pay, taxable benefits, CPP contributions, EI premiums, income tax, advances, deductions, net pay and amounts remitted to Canada Revenue Agency taxation.

- Provide a monthly payroll transaction summary slip to employees with their pay cheques.

- Submit the monthly remittance on form PD7AR to Canada Revenue Agency Taxation. (Due by the 15th of the following month).

At year-end:

- Complete an annual payroll summary from the monthly payroll ledger records.

- Complete T4 Supplementary slips for all employees before February 28 of the following year.

- Submit T4-T4A Summary to Canada Customs and Revenue Agency Taxation. This is a summary of all remuneration paid to all employees.

- Complete and file year end summary with the Workplace Safety and Insurance Board.

- Complete and file payroll summary with Employer Health Tax, (section of Ontario Ministry of Finance).

Farmers using computers to calculate payroll deductions should refer to Canada Revenue Agency's publication Machine Computation of Income Tax Deductions, Canada Pension Plan Contributions and Employment Insurance Premiums (MC tables).

PAYROLL DEDUCTIONS

Canada Pension Plan (CPP)

Employee premiums are based on a percentage of the employee's earnings and are matched by the employer.

Salary, wages or other remuneration, commissions, bonuses and the value of board and lodging (other than exempt allowance for special or remote work sites) are subject to Canada Pension Plan contributions.

Premiums are **not** required for:

- individuals under the age of 18 or over the age of 70
- agricultural workers who earn less than $250 and work less than 25 working days in a calendar year
- employment where no cash remuneration is paid

Employment Insurance (EI) Premiums

The Employee's Premium is based on a percentage of insurable earnings to an annual maximum.

The Employer's contribution is 1.4 times the amount of the employee's EI premiums to an annual maximum per employee. Employee and employer premiums are required for any individual earning insurable employment income. All employment in Canada, under a contract of service, is insurable employment unless otherwise accepted.

Spouses and family members are considered insurable if they are working in a valid employer/employee relationship under a contract of service. You should obtain a ruling from Canada Customs and Revenue Agency if there is any doubt whether or not a valid contract for service has been established. For additional information, see question 7.

There is no minimum or maximum age limit for EI premiums. Persons over age 65 continue to pay EI premiums.

Employee and employer premiums are **not** required:

- for employment in agricultural enterprises of less than 7 working days in a calendar year or the person receives no cash remuneration
- for employment by a corporation of a person who controls more than 40% of issued voting shares
- where the family member is an independent contractor working under a contract for service
- where the family member is not dealing with you at "arm's length" and is not working under a valid employee/employer relationship
- employment that is an exchange of work or services

Workplace Safety and Insurance Board (WS&IB) Premiums

The WS&IB provides benefits to owner/operators and workers should they became injured or sick on the job. The WS&IB provides safety information and training through the Farm Safety Association.

Employers pay an annual assessment to the WS&IB based on the rate into which they fall and their total annual payroll.

Farm operations are classified into rate groups, depending on the type of farming. Each rate group has a dollar amount assigned to it annually by the Board that reflects the past and expected future costs of injuries and occupational illnesses within that rate group.

The annual assessment to be paid by the employer is calculated by multiplying each $100 of assessable payroll (to the maximum earnings ceiling established in the act) by the dollar amount assigned to the employer's rate group. It is illegal to deduct the cost of WS&IB premiums from a worker's wages.

A farmer is required to report and register its business with the WS&IB within one month of first hiring employees. Registration can take place in writing or by phone at the nearest WS&IB office.

Annual payroll information for assessment purposes must be filed by April 30 each year.

Failure to register or file payroll information may result in a charge for the full cost of a claim and a late filing charge.

Employer Health Tax

Employers in Ontario with a payroll in **excess** of $400,000 annually are required to pay Employer Health Tax. Employers with payrolls less than $400,000 are no longer required to make payments.

Employer Health Tax remittances are to be submitted annually, with the annual Employer Health Tax return, which is due March 15 of the following calendar year.

Employers may find information on paying the EHT from the Ontario Ministry of Finance. See the chart at the back of this factsheet for contact information.

ANSWERS TO COMMON QUESTIONS

1. *If I hire someone for a few days a year to help with seeding or harvest, do I need to deduct CPP and EI?*

   No. CPP premiums do not have to be made for employees hired for less than 25 working days in a calendar year.

   EI premiums do not have to be deducted for employees who work less than seven days in a calendar year.

   Arrangements do have to be made for Workplace Safety and Insurance Board coverage and contributions for the Employer Health Tax.

2. *Can I pay my spouse or child's salary once at the end of the year?*

   Yes, this is possible, provided the payment is actually made and deductions are remitted as required. Don't expect to be able to decide how much you should have paid after the 12 month business year has expired. It is important that you have a written agreement on file detailing the job specifications, including salary levels.

3. *Should I pay my employees by cheque?*

   Yes. Payments should be by cheque and made out for the end of time period covered, i.e., weekly or monthly. The cheque should be deposited in the employee's bank account to indicate the recipient has control over the funds.

4. *What if the farm business can't afford to pay its family members their salaries?*

   An alternative is to pay the spouse or child the usual salary and have them lend the money back to the employer with a properly documented demand note. An actual cash transaction must take place where the employee receives the money and then lends it or invests it back into the business.

5. *What if I don't like to or don't have time to keep payroll records?*

   As an employer, you do not have to physically do the records yourself. Accountants or tax filers can help you with payroll deductions. They can help you with the initial calculations and you can complete the monthly procedures yourself, or you can hire them to do all the work related to payroll. However, it is the responsibility of the employer to maintain payroll records for tax purposes and under the provincial Employment Standards Act. (You can also get instructions from the Record of Employment specialist at your nearest Service Canada Centre).

6. *What if I pay my employees in kind rather than in cash?*

   Payments to employees in kind rather than cash are treated as "non-cash benefits", which are taxable. The fair market value of the payment in kind given to the worker is a benefit to the individual that must be reported on a T4A slip. These benefits are not pensionable and not insurable by the employer, therefore no CPP and EI deductions are required by the employer.

7. *What if I hire someone on contract, do I need to make payroll deductions?*

   No. If the contract labourer is a self-employed worker who is contracted to do a certain job, it is only necessary to pay their contracted job cost. Custom operators must provide a Clearance Certificate issued by the WS&IB or you the employer are responsible for the WS&IB premiums. The CRA has developed a booklet explaining how to determine whether someone is actually an employee or self employed. This is a very important determination and greatly impacts on things such as EI and CPP contributions. This booklet is available by contacting your nearest CRA office and asking for publication RC4110 (E) Rev 06.

8. *When deciding on salary levels for spouse and children, what is reasonable?*

   Salaries or wages must be of a reasonable amount based on the extent and type of work performed by the family member. Consider what you would pay a non-family member to do the same work. Minimum wage guidelines apply here.

9. *If my spouse is currently paid as an employee is there any problem in them becoming a business partner later on?*

   There is generally no problem changing from an employee to business partner as long as you can document to Canada Revenue Agency how the former employee's shares or partnership interest in the business have been acquired or accumulated.

10. *If I pay my family members (children, spouse) does my operation come under the Occupational Health and Safety Act (OHSA) or is there an exemption for immediate family members?*

    There is no exemption. If you have paid workers (money is exchanged for work) then your operation falls under OHSA.

11. *Can my spouse, as a farm employee, in turn hire her mother to look after our young children and deduct the personal child-care expenses while working for me in the farm business?*

    The spouse with the lowest income may claim child care expenses. When the care giver is "connected", the connected person must be 18 years of age or older and not claimed as a dependent by the employer. In the case of your spouse hiring your mother-in-law, child care expenses would be deductible in most situations.

ADDITIONAL RESOURCES

The Canadian Farm Business Management Council (CFBMC) publishes a booklet entitled Managing People on Your Farm. This excellent publication uses case histories to illustrate various management and employment techniques designed to improve your managerial skills.

CONCLUSION

Paying wages to family members does not have to be an onerous task. When setting up your business or changing an already established one, make sure to follow all regulations that apply. Check with the appropriate government agencies and don't be afraid to ask for help from your accounting firm or lawyer. Preparation is the key when setting up wage payment plans not just to family members but regular employees as well.

This Factsheet was revised by **Gary Mawhiney**, Human Resources Management Program lead, OMAFRA, Guelph. The original Factsheet was authored by **Bev Rawn**, OMAFRA, Guelph. The author also wishes to acknowledge the assistance of **Kristine Jack**, OMAFRA, Guelph, in the preparation of this revision.

CONTACT INFORMATION

CANADA PENSION PLAN
Website: www.hrdc-drhc.gc.ca/isp/common/home.shtml
Phone No.: 1-800-277-9914
E-mail: isp-psr.mail-poste@hrdc-drhc.gc.ca

Addresses:

ONTARIO (Scarborough)
P.O. Box 5100
Postal Station "D"
Scarborough, Ontario
M1R 5C8

ONTARIO (Timmins)
70 Cedar Street South
P.O. Bag 2013
Timmins, Ontario
P4N 8C8

ONTARIO (Chatham)
65 William Street South
P.O. Box 2020
Chatham, Ontario
N7M 6B2

CANADA REVENUE AGENCY
Phone No.: 1-800-461-9999 or 1-800-959-5525
Website: www.cra-arc.gc.ca/menu-e.html

FARM SAFETY ASSOCIATION
101-75 Farquhar St.
Guelph, Ontario
N1H 3N4
Phone No.: (519) 823-5600
E-mail: info@farmsafety.ca
www.farmsafety.ca

MINISTY OF LABOUR
LABOUR
400 University Ave
Toronto, Ontario
M7A 1T7
Phone No: (416) 326-7160
Toll-free: 1-800-531-5551
Website: www.labour.gov.on.ca

ONTARIO MINISTRY OF FINANCE/ EMPLOYER HEALTH TAX
Tax Revenue Division
33 King St W
Oshawa, Ontario
L1H 8H5

Phone No.: 1-800-263-7965 or 1-800-263-7776
Fax No.: 1-877-4-TAX-FAX or 1-877-482-9329
Website: www.fin.gov.on.ca

ONTARIO WORKPLACE SAFETY AND INSURANCE BOARD
200 Front Street West
Toronto, Ontario
M5V 3J1

Phone No.: (416) 344-1000
Toll free: 1-800-387-5540
Ontario Toll free: 1-800-387-0750
Fax No: 1-888-313-7373 or (416) 344-4684
Website: www.wsib.on.ca

CANADA-ONTARIO BUSINESS SERVICE CENTRE
Toronto, Ontario
M5C 2W7

Phone No.: (416) 775-3456
Toll Free: 1-800-567-2345
Fax No.: (416) 954-8597
E-mail: ontario@cbsc.ic.gc.ca
Website: www.cbsc.org/ontario

CANADIAN FARM BUSINESS MANAGEMENT COUNCIL
Suite 300, 250 City Centre Avenue
Ottawa, Ontario
K1R 6K7
Phone No.: (613) 237-9060
Toll-free: 1-888-232-3262
Fax No: (613) 237-9330 or toll-free: 1-800-270-8301
E-mail: council@cfbmc.com
Website: www.farmcentre.com

FOR YOUR NOTES

Agricultural Information Contact Centre
1-877-424-1300
ag.info@omafra.gov.on.ca

www.omafra.gov.on.ca

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